

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTY FAIR
NAPA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-024
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

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Auditor

AUDIT REPORT NUMBER

#08-024

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Al Wagner, President
Board of Directors
25th DAA, Napa Town & Country Fair
575 Third Street
Napa, California 94559

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 25th District Agricultural Association (DAA), Napa Town & Country Fair, Napa, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 25th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

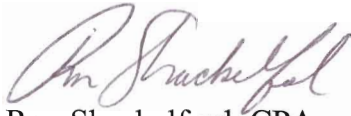
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 25th DAA, Napa Town & Country Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 25th DAA, Napa Town & Country Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-024, on the 25th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 25th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", written in a cursive style.

Ron Shackelford, CPA
Chief, Audit Office

October 31, 2008

**25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash & Cash Equivalents	111 - 117	\$ 258,708	\$ 257,472
Accounts Receivable, Net	131,133	143,352	89,255
Deferred Charges	143	-	3,043
Construction in Progress	190	-	33,446
Land	191	231,900	231,900
Buildings and Improvements, Net	192	865,892	304,499
Equipment, Net	193	11,189	16,026
TOTAL ASSETS		<u>1,511,041</u>	<u>935,641</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Payroll Liabilities	212 - 226	36,658	291
Deferred Income	228	31,170	43,406
Guaranteed Deposits	241	1,000	1,000
Compensated Absences Liability	245	57,766	63,637
Total Liabilities		<u>126,594</u>	<u>108,334</u>
Net Resources			
Reserve for Junior Livestock Auction	251	81,587	99,110
Net Resources - Operations	291	193,879	142,326
Net Resources - Capital Assets	291.1	1,108,981	585,871
Total Net Resources Available		<u>1,384,447</u>	<u>827,307</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,511,041</u>	<u>\$ 935,641</u>

**25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006**

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
REVENUE			
State Apportionments	312	\$ 124,000	\$ 124,000
F&E Project Funds/Capital Project Reimbursement	318/340	520,862	27,255
Admissions	410	311,814	312,746
Commercial Space	415	82,304	83,226
Carnival	421	116,344	115,690
Food Concessions	422-423	102,367	99,318
Exhibits	430	21,364	14,934
Attractions - Fairtime	460	35,276	37,443
Miscellaneous Fair	470	71,555	62,655
JLA - Revenue	476	70,388	82,656
Non-Fair Revenue	480	535,901	507,013
Prior Year Adjustment	490	(6,209)	2,372
Other Revenue	495	11,452	6,912
Total Revenue		<u>1,997,418</u>	<u>1,476,221</u>
EXPENSES			
Administration	500	286,792	340,610
Maintenance and Operations	520	633,275	662,041
Publicity	540	52,626	39,364
Attendance	560	108,919	109,979
Miscellaneous Fair	570	12,635	13,101
JLA - Expense	576	87,911	60,697
Premiums	580	23,509	25,108
Exhibits	630	45,746	53,282
Attractions - Fairtime	660	172,918	198,114
Prior Year Adjustments	800	(28,385)	(33,092)
Cash Over/Short from Ticket Sales	850	(18)	1,692
Depreciation Expense	900	37,744	18,664
Other Operating	945	6,610	27,255
Total Expenses		<u>1,440,278</u>	<u>1,516,816</u>
RESOURCES			
Net Change - Income / (Loss)		557,140	(40,596)
Resources Available, January 1		827,307	867,903
Resources Available, December 31		<u>\$ 1,384,447</u>	<u>\$ 827,307</u>

**25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 557,140	\$ (40,596)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(54,097)	(66,904)
(Increase) Decrease in Deferred Charges	3,043	(385)
Increase (Decrease) in Deferred Income	(12,236)	(27,128)
Increase (Decrease) in Accounts Payable & Other Liabilities	36,367	(29,292)
Increase (Decrease) in Compensated Absence Liability	(5,871)	4,080
Increase (Decrease) in Guarantee Deposits	-	(2,500)
Total Adjustments	<u>(32,794)</u>	<u>(122,129)</u>
Net Cash Provided (Used) by Operating Activities	<u>524,346</u>	<u>(162,725)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction In Progress	33,446	(33,446)
(Increase) Decrease in Buildings & Improvements	(561,393)	11,580
(Increase) Decrease in Equipmen	<u>4,837</u>	<u>(11,043)</u>
Net Cash Provided (Used) by Investing Activities	<u>(523,110)</u>	<u>(32,910)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	1,236	(195,635)
Cash at Beginning of Year	257,472	453,107
CASH AT END OF YEAR	<u><u>\$ 258,708</u></u>	<u><u>\$ 257,472</u></u>

**25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 25th District Agricultural Association (DAA) was formed in 1933, for the purpose of sponsoring, managing, and conducting the Napa Town & Country Fair each year in Napa, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.75% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash & Change Fund	\$ 12,873	\$ 11,650
Cash in Bank - Operating	170,459	2,315
Cash in Bank - Premium	(350)	2,642
Cash In Bank - JLA	4,220	111,538
Cash in Bank – Time Deposits	<u>71,506</u>	<u>129,327</u>
Total Cash and Cash Equivalents	<u><u>\$ 258,708</u></u>	<u><u>\$ 257,472</u></u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 137,125	\$ 89,637
Accounts Receivable - UI	6,227	1,834
Allowance for Doubtful Accounts	<u>0</u>	<u>(2,216)</u>
Accounts Receivable - Net	<u><u>\$ 143,352</u></u>	<u><u>\$ 89,255</u></u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$ 3,887,798	\$ 3,292,699
Less: Accumulated Depreciation	<u>(3,021,906)</u>	<u>(2,988,200)</u>
Building & Improvements - Net	<u><u>\$ 865,892</u></u>	<u><u>\$ 304,499</u></u>

Equipment	\$ 938,790	\$ 928,290
Less: Accumulated Depreciation	(927,601)	(912,264)
Equipment - Net	<u>\$ 11,189</u>	<u>\$ 16,026</u>

NOTE 5

RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

**25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 25th DAA Board of Directors
1	Chief Executive Officer, 25th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA

MANAGEMENT REPORT #08-024

YEAR ENDED DECEMBER 31, 2007

25TH DISTRICT AGRICULTURAL ASSOCIATION
NAPA TOWN & COUNTRY FAIR
NAPA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Marinette Babida

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-024

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Al Wagner, President
Board of Directors
25th DAA, Napa Town & Country Fair
575 Third Street
Napa, California 94559

In planning and performing our audit of the financial statements of the 25th District Agricultural Association (DAA), Napa Town & Country Fair, Napa, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Napa Town & Country Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 25th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 25th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 25th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 25th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 25th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 25th DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, board member ticket/passes, purchasing procedures, and temporary employees. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 25th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

The Fair did not correctly account for all fixed assets prior to closing the accounting period and preparing the year-ending financial reports. Our office noted a \$23,977 discrepancy, which relates to the Concession Sidewalk project completed in 2005 that was not reflected in the general ledger. The Fair excluded in error the cost of the capital improvements from the general ledger thereby understating Account #192, Buildings and Improvements, related accumulated depreciation, and depreciation expense by \$23,977, \$2,398 and \$799, respectively, at year-end.

Recommendation

- 1. The Fair should make the necessary adjusting journal entries to reflect the omitted cost of the Concession Sidewalk project within its general ledger. In the future, the Fair should ensure the balance in Account #192, Buildings and Improvements, is fairly stated prior to closing the accounting period and preparing the annual Statement of Operations.*

BOARD MEMBER TICKETS/PASSES

The Fair has a formal policy of issuing 25 courtesy passes (gate admission tickets), parking ticket and ten gala admission tickets to each Board member and a total of 88 gate admission tickets to past members of the board of directors. For 2007, the individual ticket cost for gate admission, parking and gala admission is \$8, \$5 and \$25, respectively, resulting in a maximum value of freebies totaling \$455 per current board member and \$704 for all the past board members. Although the amount is not deemed excessive, the distribution may be deemed a gift of public funds. According to Government Code, Section 82028, a gift is defined as any payment that confers a personal benefit on the recipient, to the extent that consideration of equal or greater value is not received. The California constitution states in part, "the Legislature shall have no power to make any gift or authorize the making of any gift, of any public money or thing of value to any individual," and as a state agency the District Agricultural Association is governed by this law. In addition, according to the Fairs & Expositions (F&E) Accounting Procedures Manual (APM), free passes to state-sponsored entertainment events are prohibited.

The Fair Political Practices Commission (FPPC) recently adopted California Code of Regulations (CCR), Section 18944.1, which would require free tickets/passes to be treated as income subject to taxes or treated as a gift, which would make them subject to strict state limits. If not treated as income, the Fair/official would have to demonstrate that the freebies benefit the public because state law prohibits gifts of public funds.

Recommendation

- 2. The Fair should revisit their policy for distributing free fair tickets to Board members to ensure proper classification as either income or gift to the recipient. If classified as a*

gift, the Fair should be cautioned that, if there is not a legitimate business purpose, distributions of this nature may be deemed a gift of public funds.

PURCHASING PROCEDURES

The Fair's compliance with State purchasing procedures was reviewed and the following items were noted:

- a. The Fair did not comply with the F&E APM when making opportunity purchases. The Fair did not maintain a log or other lists specifying these opportunity purchases. Section 2.12 of the F&E APM states that the individual authorized to issue and/or approve purchases must set up and maintain logs and files with lists of purchases in numerical order, items purchased, date of purchase and name of vendor. This was a prior year audit finding.
- b. The Fair did not complete a purchase order Standard Form 65, Contract/Delegation Purchase Order, for purchases over \$100. According to the Accounting Procedures Manual, a purchase order should be completed for all purchases over \$100 and approved by the appropriate level of management. This was a prior year audit finding.

Recommendations

3. *The Fair should follow the proper guidelines in the F&E APM and maintain a detailed purchasing log when making an opportunity purchase. Additionally, the Fair should attach supporting documentation and bids when required.*
4. *The Fair should comply with the purchase order requirements and complete a Purchase Order (Standard Form 65) for all purchases over \$100.*

TEMPORARY EMPLOYEES

Two employees who worked in excess of the 1,000 hours limitation during fiscal year 2006/2007 were not enrolled into Public Employees' Retirement System (PERS) in a timely manner. We noted these employees worked 2,136 and 2,468 hours for the fiscal year 2006/2007. Per Government Code Section 20305, if an individual who is employed on an other than per diem basis works "1,000 hours within the fiscal year...membership shall be effective not later than the first day of the first pay period of the month following the month in which...1,000 hours of service were completed." This was a prior year audit finding.

Recommendation

5. *The Fair should comply with Government Code Section 20305 and enroll individuals who have worked at least 1,000 hours into PERS, effective the first day of the pay period of the following month.*

NON-REPORTABLE CONDITIONS

PERSONNEL PROCEDURES

The Fair allowed one permanent employee to carry over an annual leave balance in excess of the maximum amount allowed. According to the Department of Personnel Administration and the F&E APM, the maximum number of accumulated annual leave hours allowed to carry over to the next year is 640 hours. The employee had a balance of 719 hours at year-end 2007, which is 79 hours over the amount allowed to carry over. Allowing an employee to carry over excessive leave balances increases the Fair's liability should the employee leave State service. This was a prior year audit finding.

In addition, the Fair allowed three temporary employees to work in excess of the 119-day limitation within a calendar year. According to the F&E APM, "by law temporary employees may not work more than 119 days in a calendar year." The F&E APM further cites Article VII Section 4(1) of the Constitution of the State of California as its basis for this policy. We noted these employees worked between 120 and 131 days in 2007. This was a prior audit finding.

Moreover, the Fair did not correctly adjust Account #245, Compensated Leave Liability, at year-end to reconcile to the employee's year-end leave record balance, thereby understating Account #245 by \$6,389. This was a prior year audit finding.

Recommendations

The Fair should ensure permanent employees do not maintain accrued leave hours in excess of the required limits. The Fair should encourage the employees with excess balances to take time off, thereby reducing their accumulated leave balances.

The Fair should comply with the F&E APM and State constitution limitation by ensuring temporary employees do not work in excess of the 119-day limitation.

The Fair should make sure the leave liability at year-end represents the correct balance to prevent future understatement.

ACCOUNTS RECEIVABLE

The Fair did not establish receivables for \$12,644 related to 2007 revenues for which payments were outstanding at year-end and subsequently received in 2008. The accrual basis of accounting requires the recognition of revenue within the period incurred. If revenues have been earned, but not yet received, an effort should be made to reasonably estimate and accrue the revenue for the amount to be received. This should be done prior to closing the accounting records and preparing the annual Statement of Operations.

Recommendation

The Fair should ensure it is adequately recognizing all of its revenues in the period in which they were earned by establishing a receivable for the amounts still outstanding at year-end.

CASH RECEIPTS

The Fair did not always deposit cash receipts in a timely manner. The F&E APM requires the Fair to make daily deposits whenever cash exceeds \$500, or when the aggregate cash exceeds \$5,000. Furthermore, no collection may remain undeposited for more than 15 working days. Our office noted that the Fair allowed some deposits exceeding the cash limitation to remain undeposited for up to six days. This was a prior year audit finding.

Recommendation

The Fair should ensure they deposit cash receipts within the timeframes specified in the F&E APM. The timely deposit of cash receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected.

GENERAL EXPENDITURES

The Fair does not always properly document expenditures according to the F&E APM Section 2.85. Invoices do not always indicate an approval of the expenditure took place and supporting documentation is not always attached, particularly related to the expenditures on the Fair's credit card, to justify the expenditures incurred. Furthermore, the Fair incurred unnecessary finance charges, late payment and over credit limit penalties totaling approximately \$305 on the Fair's credit card. Sound accounting and good business practices dictate that all expenditures be supported by detailed documentation and each Fair must require specific information on all invoices.

Recommendation

The Fair should ensure all expenditures have related supporting documents and are properly justified to determine the appropriateness of the expenditure to the business needs of the Fair. In addition the Fair should closely monitor all credit card purchases are paid in a timely manner to avoid unnecessary credit card penalties.

JUNIOR LIVESTOCK AUCTION

The Fair did not reconcile Account #251, Auction Contingency Reserve, to the corresponding Account #117, Cash in Bank – Junior Livestock Auction (JLA). As a result, these accounts did not agree in the year-end financial records. According to the F&E APM Section 1, 2.37, “the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal the net resources in the Auction Contingency Reserve.” This was a prior year audit finding.

Recommendation

The Fair should annually reconcile the JLA accounts to ensure that Account #117, Cash in Bank - JLA, plus any JLA accounts receivable agrees to Account #251, Auction Contingency Reserve, plus any JLA liabilities.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



March 24, 2009

Ron Shackelford, Audit Chief
Department of Food and Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford:

We have reviewed your independent auditor's report and financial statements and the related management report for the year ending December 31, 2007. We have reviewed the four areas identified by the auditor as reportable conditions and our response to each one in order is as follows:

Accounting for fixed assets:

The fair did recognize the omission on the front recap page and this was corrected at the time the auditor was here.

Board Member Ticket/Passes:

This has been a formal policy with the Exposition for the last 12 years. We will look into the policy and make recommendations on how we will handle this in the future.

Purchasing Procedures:

The fair has made improvements in the purchasing procedures and in 2008 have started the use of purchase orders. We shared this with the auditor during her visit and she thought we were headed in the right direction.

Temporary Employees;

Temporary Employees – This was a prior year finding in the Audit in October 2006. By that time we had already made the mistake and could not correct it at that late date. We believe that we have corrected the problem as far as the 119 day employee tracking is concerned and are back on track for 2009.

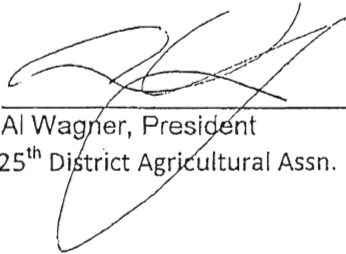
As to the 1000 hour tracking, fair staff understood this is to be a fiscal record as opposed to the calendar tracking due to comments from a previous audit team. The Fair has rectified this in the 2008 Calendar year by utilizing the payroll services of the California Fairs Services Authority and better tracking.

The staff at the 25th DAA looks at our audits as a time to learn new and better ways to do our jobs more efficiently while complying with state regulations. We look forward to working with the audit team when they arrive and learning how other Fairs do things that may make our jobs easier.

Sincerely,



Joseph Anderson, CEO
25th District Agricultural Association



Al Wagner, President
25th District Agricultural Assn. Board of Directors

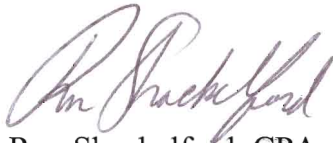
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 25th DAA, Napa Town and Country Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between October 20, 2008 and October 31, 2008. My staff met with management on October 31, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office

October 31, 2008

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 25th DAA Board of Directors
1	Chief Executive Officer, 25th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office